

Norco Co-operative Limited

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NORCO CO-OPERATIVE LIMITED ARBN 009 717 417

***Submission to the
Australian Competition and Consumer Commission***

***Inquiry into the Australian dairy industry – Submission in
response to the Dairy Inquiry Interim Report November 2017***

31 January 2018

By e-mail: dairyinquiry@accc.gov.au

In respect to the ACCC Dairy Inquiry Interim Report of November 2017, Norco Co-operative Limited ARBN 009 717 417 (“Norco”) seeks to provide feedback and communicate the direct impact to the Co-operative in regard to the interim recommendations.

Norco seeks to comment directly on the following:

Chapter 9 - Potential responses to identified dairy industry issues
9.3 The Impact of the Voluntary Code

In general terms, as Norco is a 100% farmer owned co-operative, farm gate price risk and contractual terms and conditions are a shared risk between the Co-operative and our farmer Members and owners. Therefore, Norco’s view is that a Mandatory Code under the existing guidelines does not reflect this shared risk and also does not reflect the current market conditions of Norco’s commercial environment that are distinctly different to other processors, in particular within the commodity driven and regional supply area of Victoria.

‘Forward looking Step downs’ – Section 4 of Voluntary Code

The Voluntary Code stipulates that if a future step down is announced, dairy farmers may terminate their contract without penalty on a maximum of 30 days written notice. It is Norco’s view that, as the majority of farmer supplied milk is required for the Norco drinking milk sales market (either contracted and branded product), a 30 day termination is a direct competitive threat to the security of milk supply for that market and is not in the Co-operatives, or the Co-operative Members commercial interest to allow. Norco has amended the Milk Supply Agreements to reflect a 90 day termination period if the announced milk pricing for the following 12 months is at 90% of the previous three year average price for that farm. This amendment reflects a fair and reasonable termination period for both the Co-operative and our Members.

‘Exclusive Supply Clauses’ – Section 6 of Voluntary Code

Norco Milk Supply Agreements and policies clearly state that ‘all milk produced’ on a Members farm must be supplied to Norco. This directly reflects the shared commercial risk between the Co-operative and our Members / Owners. Notwithstanding the practical and logistical issues in relation to a farmer supplying milk concurrently to more than one processor, Norco’s view is that the current Norco system of differential pricing for above allocation milk supplied, while not currently in place (that is, there is no differential pricing for 2017/18), this provides a reasonable and fair mechanism to manage the commercial risk of the Co-operative and by extension all Members of the Co-operative as a whole.

Please note that it is these factors that have resulted in the decision by the Norco Board of Directors to not sign the Voluntary Code of Conduct at this point, as it is Norco’s view that current Norco Milk Supply Agreements and policies would breach the Code in the above areas of concern. The Norco Board and Management have provided a commitment to the ADIC to positively engage in the annual review of the Voluntary Code to ensure that both the rights and obligations of the Co-operative and our Members are fairly represented within the Code.

Norco’s Board and Management would like to request a meeting to discuss these issues prior to the ACCC’s Final Report into the Australian Dairy Industry being compiled.

Yours sincerely
NORCO CO-OPERATIVE LIMITED

A handwritten signature in black ink, appearing to read "G.V. McNamara". The signature is written in a cursive, flowing style.

GREG MCNAMARA
Chairman